Headquarters U.S. Air Force

Integrity - Service - Excellence

Project Financials Lessons Learned

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5 February 2004

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Outline

- FM Guidance update
  - Economic Analysis
  - Pro Forma
- Other People's Money
- Direct Loans

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FM Guidance Update

- New guidance was issued in Nov ‘03
- Package included:
  - Concept Pro Forma Guidance/Policy
  - Economic Analysis Guidance/Policy
  - FM Roles & Responsibilities
  - EA / Pro Forma / Scoring Report Templates

- New Privatization Section was added SAF/FM website (www.saffm.af.mil)

Lessons Learned:

- **Report templates are provided as a sample**
- **Refer to latest financial policies on SAF/FMC website**

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Economic Analysis

Major changes from past policy

- Covers both Preliminary and Final EAs
- Three Alternatives for Analysis
  - Status Quo
  - Privatization
  - Identical MILCON
- Non-momentary benefit analysis is not required
- Use of EA template report
- Certified EAs submitted to ESG
  - One week prior ESG VTC for all preliminary EAs
  - One week after SSA decision for all final EAs

Lessons Learned:

- Need to be proactive!
- Engage early and full involvement from FM community

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Concept Pro Forma

- **Set official SAF/FMC policy on pro forma development**
  - **Replaces AFCEE Pro Forma policy**
- **Provides guidance/policy on:**
  - **Lending criteria (ie. interest rates)**
  - **Operating criteria (ie. taxes, O&M)**
  - **Revenue criteria (ie. BAH and vacancy rates)**
  - **Other criteria (ie. inflation rates)**

Lessons Learned:

- **Ensure concept follows current policies**
- **Make sure concept is still feasible**
- **Evaluate all possible opportunities!**

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Concept Pro Forma

- Available resources (land, no. of units, funds)
- Evaluate Opportunities for Using Authorities
  - Lease of Land (Convey or Lease)
  - Direct Loans and Guarantee
  - Pay Allotments

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Developer vs. Air Force

Developer Strategy

Primary focus is to package a deal using "other people's money"

Corporate AF Strategy

Primary focus is to package a deal using "other people's money"

Developer Approach

1. **Equity Contributions from Gov't (if any)**
2. **Direct Loan (below market rate)**
3. **Commercial Loan w/ Guarantee**
4. **Commercial Loan**
5. **Other investors' equity**
6. **Developer's Equity**

Corporate AF Approach

1. **Developer's Equity**
2. **Other investors' equity**
3. **Commercial Loan**
4. **Commercial Loan w/ Guarantee**
5. **Direct Loan (below market rate)**
6. **Gov't Equity Contributions (if any)**

Lessons Learned:

Same strategy, different approach
Everyone wants to use other people's money

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Direct Loan Issue

- As developers get more familiar with the Air Force process, we have noticed undesirable trends in developer proposals:
  - Tendency to maximize direct loan
  - Tendency to present proposals with scored costs higher than available funds
  - Tendency to rely on creative “balanced scoring” schemes to maximize scoring
  - Tendency to emphasize enhancements instead of cost efficiencies

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Direct Loan Issue

- Some of these trends are not in the best interests of the government (i.e. does not minimize government participation)
- Creative “balanced scoring” schemes cause difficulties getting OSD and OMB approval
- OMB looking at possibly updating risk and recovery amounts in part due to “balanced scoring” schemes; could increase scored costs across all projects

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New Direct Loan Policy

- New policy was issued in Jan 04 by SAF/IEI
- Must meet mandatory direct loan terms and conditions
- RFPs will now state the financial terms
  - Based on the OSD/ESG approved Concept Pro Forma
  - Max loan amount
  - Interest rate
  - Amortization period
  - Number of tiers, etc.

Lessons Learned:

- **"Pre-approved" loan terms before entering source selection**
- **Less focus on manipulation of the government direct loan**

- **Discussion on Competing the Finances**